

Message Text

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ACTION OPIC-12

INFO OCT-01 NEA-14 ISO-00 EB-11 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 TRSE-00 XMB-07 SP-03 CIEP-02

LAB-06 SIL-01 OMB-01 L-03 IGA-02 /095 W

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R 280940Z JUN 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 5524

INFO AMCONSUL KARACHI

UNCLAS ISLAMABAD 6233

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJ: TERMS OF OPIC LOANS

REF: STATE 124972

1. EMBASSY HAS REQUESTED FROM GOP MINISTRY FINANCE
INFORMATION REQUESTED PARA 2 REFTEL AND WILL FURNISH ASAP.

2. CENTRAL BANK RATE IS CURRENTLY EIGHT PERCENT. NATIONALIZED
AND FOREIGN BANK LOANS ARE NORMALLY AT TEN TO ELEVEN PERCENT,
OR APPROXIMATELY TWO AND ONE-HALF PERCENT ABOVE BANK RATE.
SPECIFIC RATE DEPENDS UPON CUSTOMER AND TYPE OF SECURITY.
LOANS ARE NOT NORMALLY MADE FOR MORE THAN TWO-YEAR PERIOD.
RATE DEPENDS MORE UPON TYPE OF SECURITY AND CUSTOMER RATHER
THAN TERM. MANY LOANS CARRY PROVISION THAT INTEREST WILL BE
ADJUSTED IN ACCORDANCE WITH CHANGES IN CENTRAL BANK RATE.
(ALL THIS OF COURSE CONCERNS RUPEE LOANS.)

3. AS OPIC IS AWARE, GOP TAX AUTHORITIES HAVE AT VARIOUS
TIMES REQUESTED PAYMENT OF INCOME TAX ON ACCRUED INTEREST
ON COOLEY LOANS. WHEN AID WAS ADMINISTERING COOLEY LOANS,
AID ISSUED CERTIFICATIONS STATING THAT SINCE AID IS AN
AGENCY OF THE US GOVERNMENT, THEREFORE, INTEREST ACCRUED FROM
SUCH LOANS IS INTEREST ACCRUED TO THE US GOVERNMENT AND IS
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THEREFORE NOT SUBJECT TO PAKISTAN TAX. WE UNDERSTAND THESE

AID CERTIFICATIONS HAVE BEEN ACCEPTED BY GOP TAX AUTHORITIES.
PRESUMABLY THIS WOULD ALSO APPLY TO OPIC DOLLAR LOANS.

4. REGARDING INTEREST RATES OPIC MIGHT CHARGE ON DOLLAR
LOANS, MISSION WOULD LIKE TO POINT OUT THAT PAKISTAN IS
CURRENTLY NEGOTIATING DEBT RESCHEDULING AGREEMENT WITH USG
AND OTHER CONSORTIUM MEMBERS. FURTHERMORE, IMF STANDBY
PLACES RESTRICTIONS ON SHORT TERM BORROWINGS. CONSORTIUM
AND IMF HAVE EXPRESSED CONCERN ABOUT LEVEL OF SHORT TERM
FOREIGN EXCHANGE LIABILITIES OUTSTANDING AGAINST THE PAKISTANI
ECONOMY. THUS, WE WOULD LIKE TO SEE ALL FOREIGN EXCHANGE
LOANS TO PAKISTAN ON AS SOFT TERMS AS POSSIBLE.

5. AT SAME TIME, WE ALSO WISH TO ENCOURAGE SUCH AMERICAN
INVESTMENT IN PAKISTAN AS WOULD BE MUTUALLY BENEFICIAL TO
US AND PAKISTAN ECONOMIES. WE WOULD CONCUR IN OPIC DOLLAR
LOANS WITH INTEREST RATES OF NINE PERCENT OR MORE ONLY IF
NECESSARY TO SECURE SUCH INVESTMENTS, AND IF SOFTER TERM
LOANS FROM AID, EXIM BANK OR OTHER SOURCES ARE NOT AVAILABLE.
OPIC LOANS ARE LIKELY ONLY TO BENEFIT PAKISTAN'S ECONOMY
IF THE PROJECTS THEY SUPPORT GENERATE MORE FOREIGN EXCHANGE
EARNINGS OR SAVINGS THAN THE COST OF THE LOAN.
BYROADE

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